

# Quick GUIDES

## How to decide if you need an offset account

A mortgage offset account is a savings or transaction account that can be linked to your home loan. The balance in this account 'offsets' daily against the balance of your home loan before interest is calculated. In other words, the balance of your home loan is reduced for the purposes of calculating interest. An offset account can help you cut years off your home loan term and save money on interest.

Let's look at an example. If you have a home loan balance of \$250,000 and have \$10,000 in your 100% offset account, you'll only pay interest on a home loan balance of \$240,000. Because your home loan interest is calculated daily, every dollar in your offset account can save you money in interest. That means more of your repayment goes towards paying down the principal, helping you to repay your home loan faster.

### What are the benefits of an offset?

- An offset account is easy to manage. Simply have your salary and any other income deposited into your account to have an immediate impact on the amount of interest you pay, as the interest on your home loan is calculated daily.
- An offset account offers convenience and flexibility should you need it, as the account allows transactions and transfers giving you the same accessibility as an everyday transaction account.
- Some lenders offer multiple offset accounts linked to your home loan, so you can manage your finances while still benefiting from the interest saved on your home loan. This can be a great way to save for big expenses such as a holiday or a new car while still saving on home loan interest.
- Offset accounts are usually part of a home loan package that incur an annual fee, lower interest rate and other product discounts could still help you save money.
- An offset account can be more beneficial than a savings account as the interest you may earn on a savings account is less than the interest incurred on a home loan. There will be no tax on the interest you earn and you'll be building valuable equity on your property.

### Two types of offsets

- 100% offset account: 100% of the funds in your offset account are applied against your home loan balance before interest is calculated.
- Partial offset account: Gives you a reduced interest rate on the part of your home loan that is equal to the balance of your offset account.



## Weigh it up

### Things to consider

Offset accounts are terrific but they're not always suitable. It's important to understand the 'cons' as well so you can decide if an offset is right for you.

First up, there are many kinds of offset accounts, and the features will differ depending on the loan type and lender so it pays to do your homework.

For example, not all offset accounts are 100%. Fixed rate home loans may only allow 100% offset for a set period, or other conditions may apply.

You may also incur monthly fees for having an offset account. It's important to look at the total charges associated with your home loan package to determine if having an offset leaves you better off financially.

Finally, some lenders may require a minimum balance in the offset account. If you don't have much cash floating around, you may find the cost of having the offset account isn't worth the benefit.

**To decide if an offset account is right for you, start by weighing up the pros and cons carefully in the context of your personal financial situation. A Nook mortgage broker can also help you explore the cost impact and benefits of offset accounts on your overall loan position.**

## GOT A QUESTION? *Let's chat.*

Got a question? Need some help? The team at Nook is here to help. Go on, get in touch.

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